HUT 8 MINING CORP.
(formerly Oriana Resources Corporation)

Unaudited Condensed Interim Consolidated Financial Statements
(In Canadian dollars)

Three and nine months ended September 30, 2018

Notice of No Auditors Review of Interim Financial Statements

Under National Instrument 51-102, if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

The Company's independent auditors have not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

HUT 8 MINING CORP.

(In Canadian dollars)

Unaudited Condensed Interim Consolidated Statements of Financial Position

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash	$ 7,400,309	$ 23,248,485
Digital assets (Note 7)	26,480,315	1,078,760
Deposits and prepaid expenses (Note 6)	53,964	3,600
Sales tax and other receivables	-	50,000
	33,934,588	24,380,845
Non-current assets		
Plant and equipment (Note 8)	144,850,085	21,195,842
Deposits and prepaid expenses (Note 6)	5,568,760	-
Total assets	$ 184,353,433	$ 45,576,687
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 17,322,125	$ 9,069,145
Non-current liabilities		
Loan payable (Note 9)	13,782,930	-
	31,105,055	9,069,145
Shareholders' equity		
Share capital (Note 10)	163,672,258	35,676,182
Warrants (Note 10)	7,298,527	736,848
Contributed surplus (Note 10)	2,379,283	-
Accumulated deficit	(20,101,690)	94,512
	153,248,378	36,507,542
Total liabilities and shareholders' equity	$ 184,353,433	$ 45,576,687

HUT 8 MINING CORP.

(In Canadian dollars)

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Revenue		
Digial assets mined (Note 7)	$ 17,654,901	$ 36,444,220
Cost of revenue		
Site operating costs	(8,727,399)	(13,736,529)
Depreciation (Note 8)	(17,440,571)	(28,981,535)
Gross profit	(8,513,069)	(6,273,844)
Expenses		
Share based payments (Note 10)	(1,113,732)	(2,379,283)
Professional	(791,512)	(2,204,566)
General and office	(251,962)	(711,531)
Salary and benefits	(239,041)	(470,999)
Investor and public relations	(181,179)	(751,467)
Regulatory	(41,353)	(141,674)
Listing and qualifying transaction (Note 5)	-	(1,151,401)
	(2,618,779)	(7,810,921)
Operating income	**(11,131,848)**	**(14,084,765)**
Fair value loss on re-measurement of digital assets (Note 7)	(317,177)	(6,146,449)
Foreign exchange gain	251,123	248,673
Finance expense	(245,976)	(245,976)
Finance income	-	32,315
Net loss and comprehensive loss	$ (11,443,878)	$ (20,196,202)
Loss per share - basic and diluted	$ (0.14)	$ (0.25)
Weighted average number of shares outstanding - basic and diluted	83,352,995	80,209,300

HUT 8 MINING CORP.

(In Canadian dollars)

Unaudited Condensed Interim Consolidated Statement of Cash Flows

		Nine months ended September 30, 2018
Cash provided by (used in):		
Operating activities:		
Net loss	$	(20,196,202)
Change in non-cash operating items:		
Digital assets mined (Note 7)		(36,444,220)
Depreciation (Note 8)		28,981,535
Listing and qualifying transaction (Note 5)		1,151,401
Share based payments (Note 10)		2,379,283
Fair value loss on re-measurement of digital assets (Note 7)		6,146,449
Net finance expense		93,254
		(17,888,500)
Change in non-cash working capital:		
Sales tax and other receivables		50,000
Deposits and prepaid expenses		(5,619,123)
Accounts payable and accrued liabilities		12,077,160
Net cash used in operating activities		(11,380,463)
Investing activities		
Additions to plant and equipment		(81,664,076)
Net cash used in investing activities		(81,664,076)
Financing activities		
Proceeds from issuance of common shares, net of issue costs		54,840,426
Finance draw from loan payable, net of issue costs		19,844,282
Cash received from sale of bitcoin		726,655
Cash received from exercise of warrants		1,785,000
Net cash provided by financing activities		77,196,363
Decrease in cash and cash equivalents		(15,848,176)
Cash and cash equivalents, beginning of period		23,248,485
Cash and cash equivalents, end of period	$	7,400,309

HUT 8 MINING CORP.

(In Canadian dollars)

Unaudited Condensed Interim Consolidated Statement of Changes in Shareholders' Equity

(unaudited)

	Share Capital					
	Number of shares	Dollar amount	Warrants	Contributed surplus	Accumulated deficit	Total
Balance, January 1, 2018	55,200,000	$ 35,676,182	$ 736,848	$ -	$ 94,512	$ 36,507,542
Shares issued for mining equipment	16,693,858	59,401,968	-	-	-	59,401,968
Shares issued for reverse acquisition (Note 5)	220,000	1,100,000	-	-	-	1,100,000
Shares issued for private placement	14,000,000	70,000,000	-	-	-	70,000,000
Share issue costs	-	(4,947,740)	1,367,901	-	-	(3,579,839)
Share buyback	(1,600,000)	(80,000)	-	-	-	(80,000)
Shares issued for exercise of warrants	714,000	2,521,848	(736,848)	-	-	1,785,000
Issuance of warrants to Galaxy (Note 9)	-	-	5,930,626	-	-	5,930,626
Share based payments	-	-	-	2,379,283	-	2,379,283
Net loss and comprehensive loss for the period	-	-	-	-	(20,196,202)	(20,196,202)
Balance, September 30, 2018	85,227,858	$ 163,672,258	$ 7,298,527	$ 2,379,283	$ (20,101,690)	$ 153,248,378

1. Nature of Operations

Hut 8 Mining Corp. (the "Company" or "Hut 8" or "Pubco") was incorporated under the laws of the Province of British Columbia on June 9, 2011. The registered office of the Company is located at Suite 1700 Park Place 666 Burrard Street, Vancouver BC, Canada, V6C 2X8. The Company's financial year ends on December 31. The Company's common shares are listed under the symbol "HUT" on the TSX Venture Exchange and as "HUTMF" on the OTCQX Exchange. On March 2, 2018, the Company closed its qualifying transaction with Hut 8 Holdings Inc. ("Hut 8 Holdings"). The Company was a capital pool company prior to the transaction. The transaction was accounted for as a reverse acquisition (Note 5).

As at September 30, 2018, Bitfury Holding BV ("Bitfury") owned 45% of the Company's common shares and is a controlling shareholder and related party of Hut 8.

The Company is in the business of utilizing specialized equipment to solve complex computational problems to validate transactions on the blockchain. The Company receives bitcoin in return for successful service.

2. Statement of Compliance and Basis of Presentation

(a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance and compliance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all the information and disclosures required in the Company's annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on November 7, 2018.

(b) Basis of presentation

The condensed interim consolidated financial statements have been prepared on a historical cost basis except for some financial instruments that have been measured at fair value.

(c) Functional and presentation currency

These condensed interim consolidated financial statements have been prepared in Canadian dollars, which is the Company's functional and presentation currency.

(d) Consolidation

These condensed interim consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary. All significant intercompany transactions, balances, income and expenses are eliminated on consolidation.

As of September 30, 2018, the Company had one wholly owned subsidiary, Hut 8 Holdings Inc.

3. Significant Judgements and Estimates

The preparation of the Company's condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The following are the estimates and assumptions that have been made in applying the Company's accounting policies that have the most significant effect on the amounts in the condensed interim consolidated financial statements:

(i) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company has not recognized the value of any deferred tax assets in its statements of financial position.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on its technical merits. The Company measures and records the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company's estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. The Company's liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with our various filing positions. Although the Company believes that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

The Company has earned bitcoin from the commercial activity of bitcoin mining. The Company has followed the published Canada Revenue Agency ("CRA") view that bitcoin is a commodity and inventory of the business, the value of which is included in the calculation of taxable income from the business. Bitcoin is valued in accordance with Section 10 of the Income Tax Act. Revenue from bitcoin mining is included in taxable income when the bitcoin earned is sold or exchanged for cash or another asset. There is uncertainty regarding the taxation of cryptocurrency and the CRA may assess the Company differently from the position adopted. This could result in additional current taxes payable with equal offset to deferred tax expense.

3. Significant Judgements and Estimates (continued)

(ii) Impairment of non-financial assets

Impairment exists when the carrying value of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. These calculations are based on available data, other observable inputs and projections of cash flows, all of which are subject to estimates and assumptions. Recoverable amounts are also sensitive to assumptions about the future usefulness of in-process development and the related marketing rights. At the period end, management performed an impairment analysis and concluded the Company's non-financial assets were not impaired (Note 8).

(iii) Foreign currency translation

Within each entity, transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at that date. Foreign exchange differences arising on translation are recognized in the statement of operations. Non-monetary assets and liabilities that are measured at historical cost are translated using the exchange rate at the date of the transaction.

(iv) Fair value measurement of stock options and broker warrants

The Company measures the cost of equity-settled transaction by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the broker warrants, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for stock options and broker warrants are disclosed in Note 10.

(v) Accounting for digital assets

At present, there is limited guidance in IFRS on the recognition and measurement of digital assets.

Noted below are the key policies used to account for these assets.

(vi) Fair value of digital assets

Digital assets are measured at fair value using the quoted price on www.coinmarketcap.com. Management considers this fair value to be a level two input under IFRS 13 *Fair Value Measurement* fair value hierarchy as the price on this source represents an average of quoted prices on multiple digital currency exchanges. The digital assets are valued based on the closing price obtained from www.coinmarketcap.com at the reporting period corresponding to the digital assets mined by the Company. The Company is relying on the data available at www.coinmarketcap.com to be an accurate representation of the closing price for the digital assets.

3. Significant Judgements and Estimates (continued)

(vii) Useful life of mining equipment

Management is depreciating mining equipment using a straight-line basis, with a useful life of:

Seacan containers and supporting infrastructure	4 years
Mining servers	2 years
Site development costs	4 years

The mining equipment is used to generate digital assets. The rate at which the Company generates digital assets and, therefore, consumes the economic benefits of its mining equipment are influenced by a number of factors including the following:

- The complexity of the mining process which is driven by the algorithms contained within the digital assets open source software; and

- Technological obsolescence reflecting rapid development in the mining machines such that more recently developed hardware is more economically efficient to run in terms of digital assets mined as a function of operating costs, primarily power costs (ie., the speed of mining machines evolution in the industry) is such that later mining machine models generally have faster processing capacity combined with lower operating costs and a lower cost of purchase.

Based on the Company and the industry's limited history to date, management is limited by the market data available. Furthermore, the data available also includes data derived from the use of economic modelling to forecast future digital assets and the assumptions included in such forecasts, including digital asset's price and network difficulty, and derived from management's assumptions which are inherently judgmental. Based on current data available, management has determined that the straight-line method of amortization best reflects the current expected useful life of mining equipment. Management will review their estimates at each reporting date and will revise such estimates as and when data become available. Management will review the appropriateness of its assumption related to residual value at each reporting date.

4. Significant Accounting Policies

The accounting policies applied in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's December 31, 2017 audited financial statements, except for the adoption of new standards and interpretations as of January 1, 2018.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended September 30, 2018 and accordingly, have not been applied in preparing these condensed interim consolidated financial statements:

IFRS 16, Leases

IFRS 16 was issued in January 2016 and requires lessees to recognize assets and liabilities for most leases. For lessors, there is little changed to the existing accounting in IAS 17 Leases. The new standards is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. The Company is in the process of assessing the impact of this standard on the Company's condensed interim consolidated financial statements.

5. Reverse acquisition

On March 2, 2018, the Company completed its qualifying transaction (the "Qualifying Transaction") with Hut 8 Holdings. Pursuant to the Qualifying Transaction the following occurred:

(i) The Company completed a consolidation of its common stock immediately prior to the completion of the Debt Conversion and the Amalgamation (as defined below), of its then issued and outstanding 9,500,000 common shares on the basis of one new Pubco share for every 52.7777 existing Pubco shares;

(ii) The Company effected a conversion of $200,000 of debt owing by Pubco into 40,000 Pubco common shares, based on a conversion price of $5.00 per Pubco share (the "Debt Conversion");

(iii) The Company acquired all of the issued and outstanding common shares of a private corporation incorporated under the Business Corporations Act (British Columbia) (the "BCBCA"), Hut 8 Mining Corp. (the "Hut 8 PrivateCo"), from the shareholders of Hut 8 PrivateCo in exchange for an aggregate of 82,160,000 Pubco shares;

(iv) Hut 8 PrivateCo and 1149835 B.C. Ltd., a wholly-owned subsidiary of the Company amalgamated under the BCBCA (the "Amalgamation") and continued as one corporation, Hut 8 Holdings ("Amalco"), which is a wholly-owned subsidiary of the Company. The Company changed its name to "Hut 8 Mining Corp.".

The Qualifying Transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, Hut 8 Holdings, has been treated as the acquirer and Hut 8 Mining Corp., the legal parent, has been treated as the acquiree. For accounting purposes, these condensed interim consolidated financial statements reflect a continuation of the financial position, operating results and cash flows of the Company's legal subsidiary, Hut 8 Holdings.

(In Canadian dollars)

5. Reverse acquisition (continued)

The fair value of the consideration is as follows:	
220,000 common shares at a price of $5.00 per share	$ 1,100,000
Net assets acquired:	
Accounts receivable	4,167
Accounts payable and accrued liabilities	(55,568)
Listing and qualifying transaction	1,151,401
Value attributed to Hut 8 shares issued	$ 1,100,000

6. Deposits and prepaid expenses

		2018
Current assets		
Prepaid insurance	$	36,364
Miscelaneous deposits		17,600
Balance, September 30, 2018	**$**	**53,964**
Non-current assets		
Deposits under Electricity Supply Agreement (Note 14)	$	5,187,560
Land lease deposit (Note 14)		381,200
Balance, September 30, 2018	**$**	**5,568,760**

(In Canadian dollars)

7. Digital assets

Digital assets solely consist of bitcoin. Below is the bitcoin mined and transacted.

	Dollars	Bitcoin
Opening balance, November 15, 2017	**$ -**	**-**
Bitcoin received for share subscription	12,575,608	556
Bitcoin transferred to purchase plant and equipment	(12,575,608)	(556)
Bitcoin mined	1,123,216	62
Fair value loss on re-measurement of digital assets (i)	(44,456)	-
Balance, December 31, 2017	**1,078,760**	**62**
Bitcoin received through share subscriptions	11,569,735	1,077
Bitcoin transferred to purchase plant and equipment	(11,559,735)	(1,076)
Bitcoin mined	36,444,220	3,581
Bitcoin paid for services	(4,179,561)	(475)
Bitcoin traded for cash	(726,655)	(75)
Fair value loss on re-measurement of digital assets(ii)	(6,146,449)	-
Balance, September 30, 2018	**$ 26,480,315**	**3,094**

(i) Included in the fair value loss on re-measurement of digital assets is a gain on revaluation of bitcoin in the amount of $1,336,517, that is offset by an equivalent realized loss on the settlement, in bitcoin, of an amount owing to Bitfury.

(ii) Digital assets held are re-valued each reporting date based on the fair market value of the price of bitcoin on the reporting date. As at September 30, 2018, the price of bitcoin was $8,560 (US$6,626) which resulted in an unrealized loss of $6,146,449. This is a non-cash item and will fluctuate as the price of bitcoin changes.

(In Canadian dollars)

8. Plant and equipment

	Seacan containers and supporting infrastructure	Mining servers	Site development costs	**Total**
Cost				
As at November 15, 2017	$ -	$ -	$ -	**$ -**
Additions(i)	4,812,500	16,317,000	220,500	**21,350,000**
As at December 31, 2017	4,812,500	16,317,000	220,500	**21,350,000**
Additions(ii)	30,212,035	100,703,467	21,720,277	**152,635,779**
As at September 30, 2018	$ 35,024,535	$ 117,020,467	$ 21,940,777	**$ 173,985,779**
Accumulated Depreciation				
As at November 15, 2017	$ -	$ -	$ -	**-**
Depreciation	29,007	122,936	2,215	**154,158**
As at December 31, 2017	29,007	122,936	2,215	**154,158**
Depreciation	3,598,868	23,882,927	1,499,740	**28,981,535**
As at September 30, 2018	$ 3,627,875	$ 24,005,863	$ 1,501,955	**$ 29,135,693**
Net Book Value December 31, 2017	$ 4,783,493	$ 16,194,064	$ 218,285	**$ 21,195,842**
Net Book Value September 30, 2018	$ 31,396,660	$ 93,014,604	$ 20,438,821	**$ 144,850,085**

Mining equipment is made up of specialized equipment to mine bitcoin.

(i) During the period ended December 31, 2017, the Company acquired certain mining equipment from Bitfury which was measured at the exchange amount. On December 15, 2017, the Company settled $12,575,608 of the amount payable to Bitfury by issuing 556 units of bitcoin that were previously received through the common share subscription (Note 10).

(ii) During the nine months ended September 30, 2018, the Company acquired certain mining equipment from Bitfury which was measured at the exchange amount. On February 2, 2018, the Company settled $11,559,735 of the amount payable to Bitfury by issuing 1,076 units of bitcoin that were received through the common share subscription (Note 10).

8. Plant and equipment (continued)

Management assessed the indicators of possible impairment to bitcoin mining equipment, collectively the CGU during the nine months ended September 30, 2018, and resolved that impairment indicators exist. Due to the decline in the market value of servers, weakening prices of bitcoin and rising network difficulty levels during the nine months ended September 30, 2018, an impairment analysis was completed. Management has determined the recoverable amount as the value in use ("VIU"). The significant assumptions in determining VIU included the following:

- Bitcoin price - $8,560 (US$6,626) (closing price per Coinmarketcap.com on September 30, 2018)
- Discount rate – 25%

For the purpose of the VIU calculation, management utilized the bitcoin price with a growth rate of 5% per month and bitcoin mining difficulty with a decreasing rate of 4% per month as at September 30, 2018. These represent significant assumptions due to the inherent volatility and changing difficulty levels in bitcoin mining. There was no impairment resulting from using the above assumptions.

9. Loan payable

As at September 30, 2018, the Company has a loan payable, net of transaction costs, of $13,782,930 (US$10,603,672) to Galaxy Digital Lending LLC ("Galaxy"), a related party (Note 11). The loan payable is secured by the assets of Hut 8 and matures on March 10, 2021 when US$16,000,000 will be due to Galaxy. The loan payable is denominated in US dollars and bears interest at a rate equal to LIBOR + 10% per annum (or otherwise in accordance with the terms of the loan payable credit agreement). In consideration for the loan payable, the Company issued 2,222,222 bonus warrants with an exercise price of $4.50 to Galaxy with a fair value of $5,930,626. The interest expense for both the three and nine months ended September 30, 2018 was $245,976 (US$190,410), of which $85,216 (US$65,966) was interest accretion expense, has been recognized as finance expense.

(In Canadian dollars)

10. Equity

(a) Common shares

The Company has authorized share capital of an unlimited number of common shares.

On December 12, 2017, the Company completed a 10 to 1 share split. All numbers presented below are reflective of the share split.

	Number of shares		Amount
Shares issued on incorporation	40,000,000	$	200,000
Shares issued on private placement	15,200,000		38,000,000
Share issue costs – cash	-		(1,804,730)
Shares issue costs - broker warrants	-		(736,848)
Deferred tax recoverable	-		17,760
Balance, December 31, 2017	**55,200,000**	**$**	**35,676,182**
Shares issued for mining equipment(i)	16,693,858		59,401,968
Shares issued on private placement(ii)	14,000,000		70,000,000
Share issue costs – cash(ii)	-		(3,579,839)
Shares issue costs - broker warrants(ii)	-		(1,367,901)
Buyback of shares(iii)	(1,600,000)		(80,000)
Shares issued for reverse acquisition (Note 5)	220,000		1,100,000
Shares issued on exercise of warrants(iv)	714,000		2,521,848
Balance, September 30, 2018	**85,227,858**	**$**	**163,672,258**

(i) The Company issued $59,401,968 worth of common shares as payment for the mining equipment acquired for additional equipment delivered in 2018.

(In Canadian dollars)

10. Equity (continued)

(a) Common shares (continued)

(ii) On February 7, 2018, the Company completed a brokered financing for gross proceeds of $45,000,000 through the sale of 9,000,000 common subscription receipts at a price of $5.00 per receipt, and a non-brokered financing for gross proceeds of $25,000,000 through the issuance of 5,000,000 common shares at a price of $5.00 per share (the "Financing"). In connection with the Financing, the Company paid a commission to the underwriters of 6% of the proceeds and a 2% advisory fee. Total cash issue costs (including the commission and advisory fee) amounted to $3,579,839. Related to this Financing, $11,569,735 of bitcoin was received as consideration for common share subscriptions, with the balance paid in cash.

In connection with the Financing the agent received warrants equal to (i) 6.0% on 8,000,000 of the subscription receipts issued, being 480,000, 3% on 500,000 of the subscription receipts issued, being 30,000, and 3% on 2,500,000 common shares issued, being 150,000. These warrants can be exercised to acquire common shares at a price of $5.00 for a period of two years until February 7, 2020. The warrants have been valued at $1,367,901, using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.75%
Dividend Yield	nil
Volatility factor	75%
Expected life	2 years

(iii) The Company re-purchased 1,600,000 previously issued shares at a price of $0.05 from certain founders of the Company.

(iv) 714,000 common shares were issued upon the exercise of 714,000 warrants for cash proceeds of $1,785,000. The warrants were previously valued at $736,848.

(In Canadian dollars)

10. Equity (continued)

(b) Warrants

The warrant activity is as follows:

	Grant date	Number of warrants	Value
Balance, November 15, 2017		**-**	**$ -**
Broker warrants - expiry 12/20/2019	12/20/2017	714,000	736,848
Balance, December 31, 2017		**714,000**	**736,848**
Broker warrants - expiry 02/07/2020	2/7/2018	660,000	1,367,901
Warrants exercised		(428,400)	(442,109)
Warrants exercised		(285,600)	(294,739)
Galaxy warrants - expiry 09/10/2023	9/10/2018	2,222,222	5,930,626
Balance, September 30, 2018		**2,882,222**	**$ 7,298,527**

The warrants issued and outstanding as at September 30, 2018 are as follows:

Strike price	Number	Weighted average remaining contractual life (months)	Expiry date
$ 4.50	2,222,222	60	9/10/2023
5.00	660,000	17	2/7/2020
$ 4.61	2,882,222	50	

(c) Incentive plan

On March 5, 2018, the Company adopted a Long-Term Incentive Plan ("LTIP") under which it is authorized to grant stock options, restricted share units and deferred share units ("Awards") to officers, directors, employees, and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of Awards that may be granted under the plan is 10% of the issued and outstanding common shares of the Company.

(In Canadian dollars)

10. Equity (continued)

(c) Incentive plan (continued)

Stock options

The stock option activity is as follows:

	Number of options		Weighted average exercise price
Balance, December 31, 2017	-	$	-
Granted	965,000		4.63
Options outstanding, September 30, 2018	965,000	$	4.63
Options exercisable, September 30, 2018	99,167	$	5.00

As at September 30, 2018 the Company had the following stock options outstanding:

	Exercise price	Number of options outstanding	Number of options exercisable		Weighted average exercise price	Weighted average remaining life (months)
$	3.00	180,000	-	$	3.00	60
	5.00	785,000	99,167		5.00	51
$	4.63	965,000	99,167	$	5.00	52

During the three and nine months ended September 30, 2018, the Company recorded to share-based compensation expense of $349,844 and $851,505, respectively, relating to stock options. The compensation expense was based on the fair value of each stock option on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

		Nine months ended September 30, 2018
Expected life (years)		4.96
Expected volatility		109.36%
Dividend rate		0.00%
Risk-free interest rate		2.20%
Weighted average fair value per option granted	$	3.08

Restricted Share Units ("RSUs")

On April 2, 2018, the Company granted RSUs to the Chief Executive Officer ("CEO") with an explicit value of $5,000,000. The RSUs will vest in three equal tranches, with a tranche vesting on the first, second and third anniversaries of the date of grant. During the three and nine months ended September 30, 2018, the Company recognized a total of $763,888 and $1,527,778, respectively, as share based payments pursuant to RSUs.

(In Canadian dollars)

11. Related party agreements and transactions

Related party transactions

Key management includes members of the Board of Directors, the CEO and the Chief Financial Officer ("CFO"). The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

		Nine months ended September 30, 2018
Salary or other short-term benefits	$	542,230
Share based payments		2,364,513
	$	2,906,743

During the nine months ended September 30, 2018, $24,000 was charged by CFO Advantage Inc., a Company owned by the former Chief Financial Officer of the Company, for consulting fees.

During the nine months ended September 30, 2018, $75,000 was charged by a director of the Company for consulting fees in consideration of this director's involvement with various pre-listing and corporate governance-related matters.

During the nine months ended September 30, 2018, the Company was charged $112,327 for out of pocket expenses, by First Block Capital Inc., a Company controlled by a former officer and a former director of the Company. These expenses were charged primarily for travel costs related to fundraising, meetings with strategic partners and planning and organizing the Company.

See Note 10 for related party transactions with respect to share issuances.

A Director of the Company is also a key management personnel at Galaxy, resulting in the Company and Galaxy to be related party entities. As at September 30, 2018, there were no amounts owing or due from Galaxy. On September 4, 2018, a trade of bitcoin for Canadian Dollars was executed for approximately 75 bitcoins for $726,655.

During the nine months ended September 30, 2018, the Company acquired mining equipment from Bitfury, a controlling shareholder of the Company, with a total cost of $124,635,706 (2018 - $21,350,000) paid through share issuances and cash. During the nine months ended September 30, 2018, the Company was charged $8,710,465 in site operating costs. As at September 30, 2018, $13,576,698 (December 31, 2017 - $4,905,813) was owed to Bitfury, which have been included in accounts payable and accrued liabilities.

11. Related party agreements and transactions (continued)

Significant agreements with related parties

On November 29, 2017, the Company entered into a Master Data Centre Purchase Agreement (the "Purchase Agreement") with Bitfury. The Purchase Agreement governs the terms and conditions for the purchase from Bitfury of certain equipment (the "Data Centres") used for the purpose of running diverse cryptographic hash functions in connection with the mining of cryptocurrency. The Purchase Agreement is for a term of five years, with two successive renewal terms of one year each.

Concurrent with the Purchase Agreement, on November 29, 2017, the Company entered into a Master Service Agreement (the "MSA") with Bitfury. In accordance with the MSA, Bitfury shall provide the management, maintenance, support, logistics and operational services (the "Services") required to run the Data Centres. The MSA is for a term of five years, with two successive renewal terms of one year each.

12. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of equity comprised of issued share capital and reserves. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the period ended December 31, 2017.

13. Financial Instruments

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

(a) Credit Risk:

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and deposits and prepaid expenses. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(b) Interest Rate Risk:

The Company is exposed to interest rate risk through its loan payable with Galaxy (Note 9). The loan payable bears interest at a rate equal to LIBOR + 10%.

(c) Liquidity Risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash and cash equivalents and digital assets. The ability to do this relies on maintaining sufficient cash in excess of anticipated needs and the retained value and liquidity of bitcoin.

(d) Currency Risk:

The Company's functional currency is the Canadian dollar and most purchases are transacted in Canadian dollars. The Company has also transacted in US Dollars to purchase mining equipment from Bitfury and currently has a loan payable denominated in US Dollars. Management currently does not hedge its foreign exchange risk.

(In Canadian dollars)

13. Financial Instruments (continued)

(e) Fair value measurements:

(i) Financial hierarchy:

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly from observable market data; and

Level 3: Inputs that are not based on observable market data.

The Company's financial instruments have been classified as follows:

September 30, 2018	Level 1	Level 2	Level 3	Total
Fair value through profit and loss				
Cash	$ 9,824,882	$ -	$ -	$ 9,824,882
Digital assets	$ -	$ 26,480,315	$ -	$ 26,480,315

December 31, 2017	Level 1	Level 2	Level 3	Total
Fair value through profit and loss				
Cash	$ 23,248,485	$ -	$ -	$ 23,248,485
Digital assets	$ -	$ 1,078,760	$ -	$ 1,078,760

(f) Digital assets and risk management

Digital assets are measured using level two fair values, determined by taking the rate from www.coinmarketcap.com.

Digital asset prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the global political and economic conditions. The profitability of the Company is directly related to the current and future market price of digital assets; in addition, the Company may not be able liquidate its inventory of Digital assets at its desired price if required. A decline in the market prices for Digital assets could negatively impact the Company's future operations. The Company has not hedged the conversion of any of its sales of digital assets.

Digital assets have a limited history and the fair value historically has been very volatile. Historical performance of digital assets is not indicative of their future price performance. The Company's digital assets currently solely consist of bitcoin.

14. Commitments

The Company entered into definitive agreements with the City of Medicine Hat ("CMH") for the supply of electric energy, and the lease of land upon which Hut 8 is constructed its mining facilities. For electricity, an Electricity Supply Agreement ("ESA") was executed, whereby CMH will provide electric energy capacity of approximately 63 MW to the new Hut 8 facilities, which in conjunction with the Company's approximate 19 MW in operation in Drumheller, will allow Hut 8 to operate at 82 MW in total. The ESA and the land lease have a concurrent term of 10 years. The minimum payments on the land lease are $10,500 per month from May 1, 2018 to December 31, 2027.

The Company's deposits for future electricity billings to the CMH will be reduced by $330,000 on June 30, 2024 and further reduced each year thereafter by the same amount on the anniversary of such date.